

From “The Big Disconnect”

By PAUL KRUGMAN 9/1/06

- ... some pundits out there lecturing people about **how great the economy is**. ... although **G.D.P. growth has been pretty good** for the last few years, **most workers have seen their wages lag behind inflation and their benefits deteriorate**.
- The **disconnect between overall economic growth and the growing squeeze on many working Americans** ...
- The **stagnation of real wages** - wages adjusted for inflation - ... have been declining since the 1970's, ...

I showed these slides at the Edwards “house party” in Colorado Springs on 3/28/07.
Revised 8/28/07

John Edwards has been called a populist. I prepared these slides to show how important it is that the U.S. should have a populist president.

I sent this column by Paul Krugman and got an anti-populist comments from a conservative.

Find Krugman’s full column, the full comments, and my full response on the Response to a Conservative page,
<http://www.exponentialimprovement.com/cms/consdia.shtml>.

Krugman (cont'd)

- **Why ...? ... what we see today is the result of a quarter-century of policies that have systematically reduced workers' bargaining power. ...**
- **The big disconnect, in other words, provides as good an argument as you could possibly want for a smart, bold populism. All we need now are some smart, bold populist politicians.**

Krugman is exactly correct that a quarter-century of conservative economic policies “have systematically reduced workers’ bargaining power.” These slides will partially explain why.

See the full explanation on the “Response to a Conservative” page, <http://www.exponentialimprovement.com/cms/consdia.shtml>.

A Conservative Responded:

- This is **spoken like a true liberal**. PAUL KRUGMAN is **clearly a bias toward unions and government mandated wages levels and benefits. Everything needed to establish Socialism and contrary to the market economy that has made America the envy of the world and the place for real opportunity. ...**

I was shocked to get this response that equates populism to “Socialism.”

Conservative Response (cont'd)

- ... we went into the global economy and worldwide the number of people that were willing to get paid less to do the less skilled jobs increased. Rather than letting go of those jobs that can be done cheaper overseas and increasing one's skills to be more valuable to the new generation of employers, the unions have tried to hang on. Like a leach with no real concern for their host, this behavior has killed many of the (union) companies by demanding more for their work than what it was worth on the global marketplace. ...

... and it went on with invective against unions, calling them a “leach with no real concern for their host” ... and additional diatribe against liberals and France not included here.

The problem is that we didn't just “go into the global economy.” Conservative economic “free trade” policies drove us there and systematically undermined the bargaining power of the U.S. workforce by forcing competition against extremely low wage, and even slave, labor.

Conservative Response (cont'd)

- **The sooner that our unions accept their fate, ... the sooner our workers will let go of the past and** prepare themselves for the coming baby boom driven worker shortage. Employees must **look to improve their value and take care of themselves, ... Those that will let go of the past and learn or retrain to provide real value (talent and skills) to employers will be rewarded with higher wages because the supply is less than demand. Really just economics 101.**
- **Just some random thoughts :-)**

The idea that “retraining” is a solution for displaced workers is false as these slides will show.

The world does not work according to “economics 101” and it’s naïve to think it does.

These are not “random thoughts,” they are engrained in the mythology of what’s called “conservative” thought.

I particularly liked the “smiley face.”

Definitions of populist:

- **populist: "an advocate of democratic principles."**
- **populist: "an advocate of the rights and interests of ordinary people, e.g. in politics or the arts."**
- **Populism: "the political doctrine that supports the rights and powers of the common people in their struggle with the privileged elite."**
- **The support of the privileged elite against the interests of the "common people" has been the continuing goal of conservatives:**

Here are definitions of "populist" and "populism" ... how horrible.

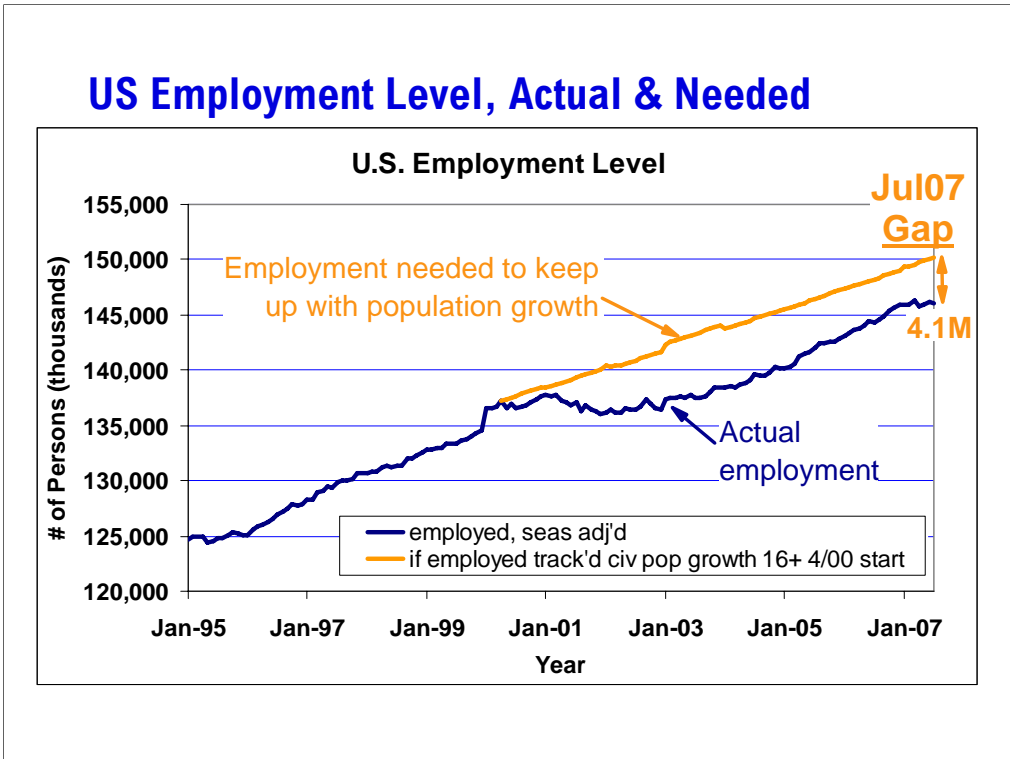
What Conservatives Believe

- If our world indeed is ordered in accordance with a divine idea, we ought to be cautious in our tinkering with the structure of society; for though it may be God's will that we serve as his instruments of alteration, we need first to satisfy our consciences on that point. Again, Burke states that a universal equality among men exists; but it is the equality of Christianity, moral equality, or, more precisely, equality in the ultimate judgment of God; equality of any other sort we are foolish, even impious, to covet.
 - *The Conservative Mind* from *Burke to Eliot* by Russell Kirk, 1953, p. 34

I used to think that liberals and conservatives want the same things, but just have different ideas about how to achieve them. This book disabused me of that misconception.

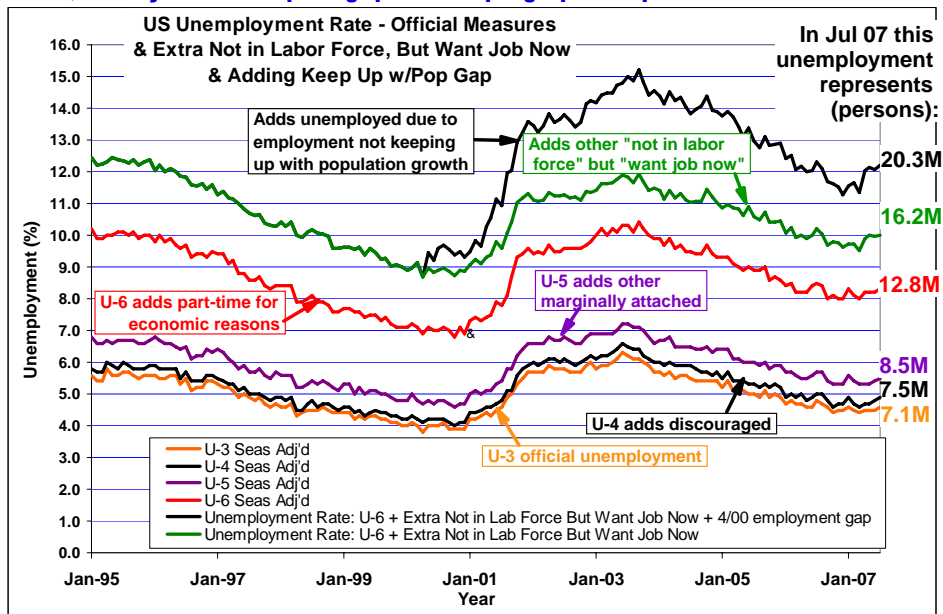
See more disturbing quotes at “The Conservative Mind” at <http://www.exponentialimprovement.com/cms/consmind.shtml>.

US Employment Level, Actual & Needed



There has been growth of U.S. employment since Jan 2000, but it hasn't kept up with population growth. This chart shows what the number of jobs would have to have been to keep up. The gap is about 4 million jobs.

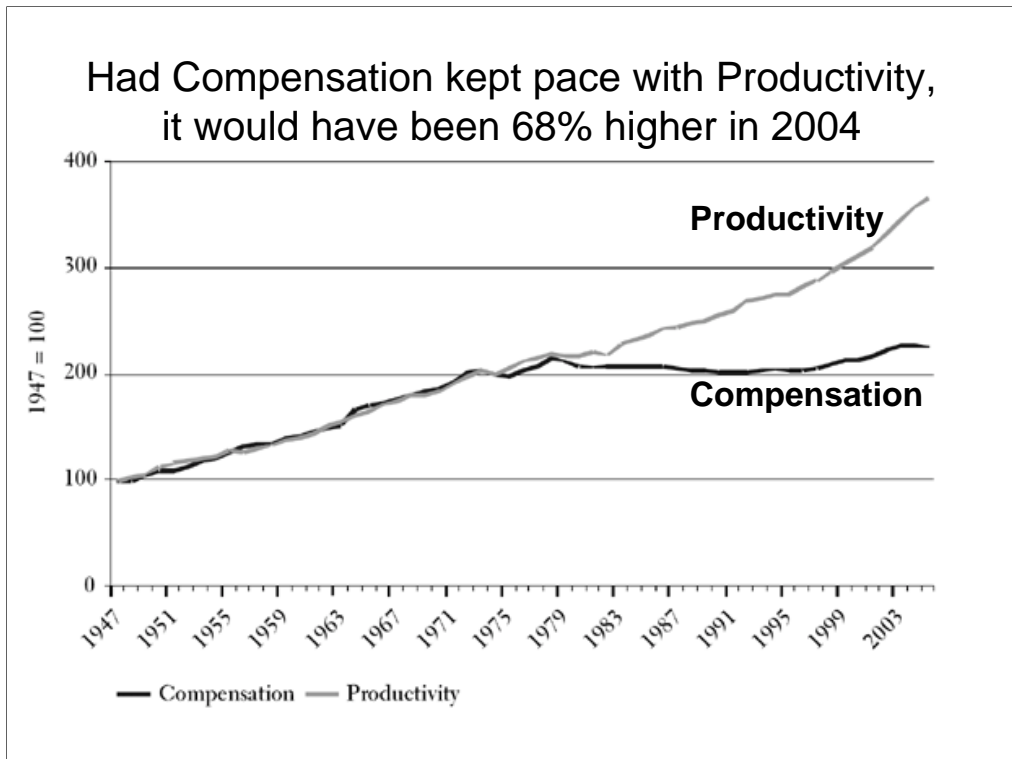
US Unemployment - Official Measures + Considered "Not in labor force, want job now" + plus gap not keeping up w/Pop Growth



This chart shows "official unemployment" and unemployment is with other groups counted.

There's even a nonsensical category, "not in labor force, want job now." Real unemployment isn't the 4.6% or so advertised, but more like 12%. Data on the Shadow Government Statistics site (google it) notes this also. That's 20 million people who need jobs, not 7 million. And this doesn't even count the underemployed.

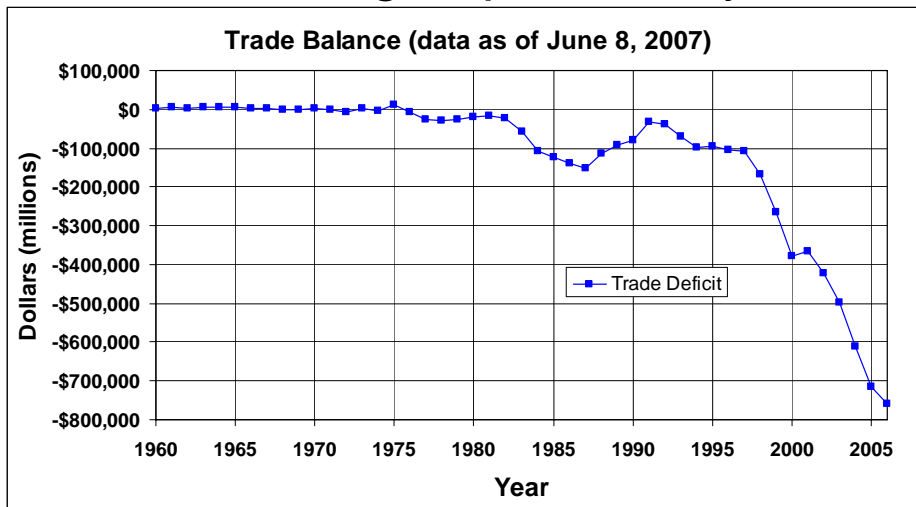
For more on this and its impact, see "There's no 'free market' for Labor" at <http://www.exponentialimprovement.com/cms/labor.shtml>.



This chart illustrates what Krugman wrote about how “real wages - wages adjusted for inflation - ... have been declining since the 1970's.” Note productivity has continued to increase, but compensation has not. That’s because those hours of offshored work that go into products produced largely offshore and sent back to the U.S. for sale aren’t counted in standard productivity measures.

An approximate calculation $(370 - 220) / 220$ gives a **68% stagnation** in compensation compared to what it would have been if compensation had continued to track productivity ... as it had before the 1980s when Ronald Reagan began the Republican war against those who work for a wage.

U.S. Trade Balance is Growing Exponentially

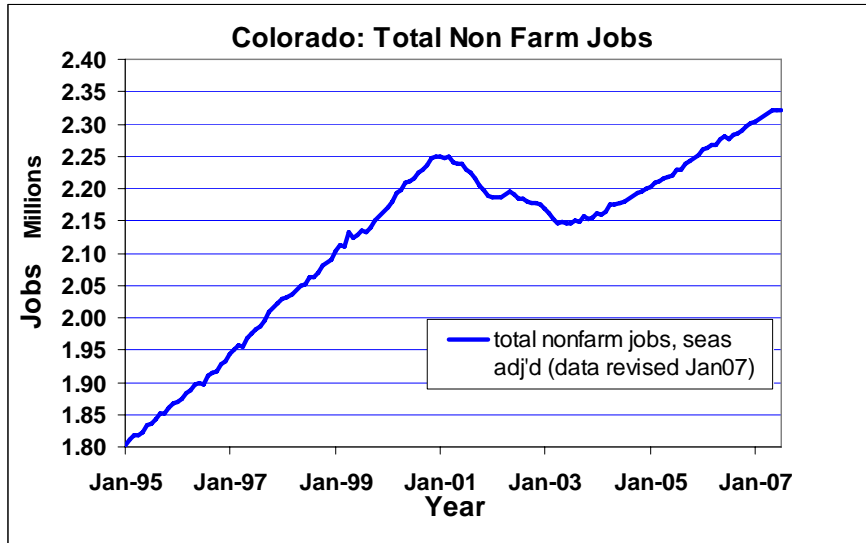


The trade deficit is growing as a result of the offshoring of work. It's increasing exponentially (literally) and is now about \$760 billion.

This can't continue. Of course ... no exponential increase can continue forever.

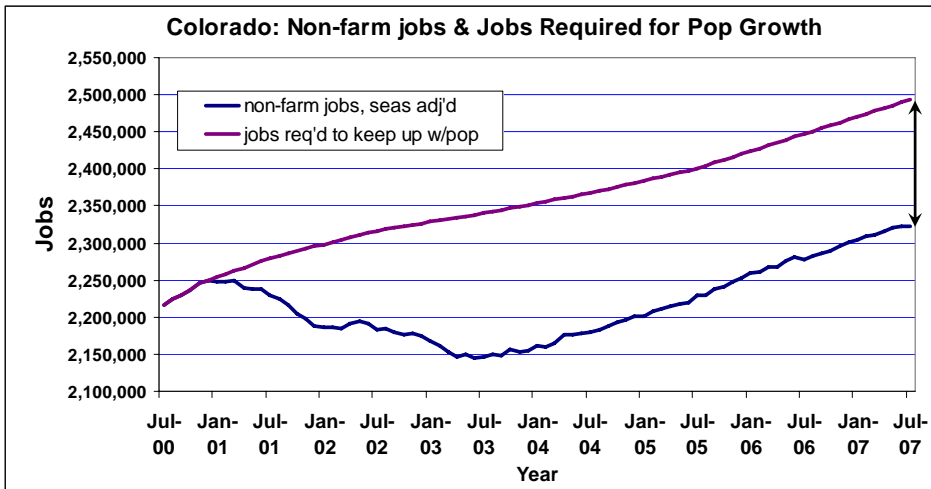
See "The Trade Deficit and the Fallacy of Composition" at <http://www.exponentialimprovement.com/cms/fallacy.shtml> on the causal loop structure responsible for this behavior.

Colorado +72,700 Jobs since Dec 00



The offshoring of jobs has consequences in the U.S. and in Colorado. This graph shows Colorado has gained over 50,000 jobs since Jan 01. But look. Jobs are WAY BELOW the trajectory prior to 2001. The rate of growth isn't even as fast. + 53,100 Jobs since Jan 01

But Jobs Gap to Keep Up with Population Growth = 171,260 jobs



Colorado's population has continued to grow.

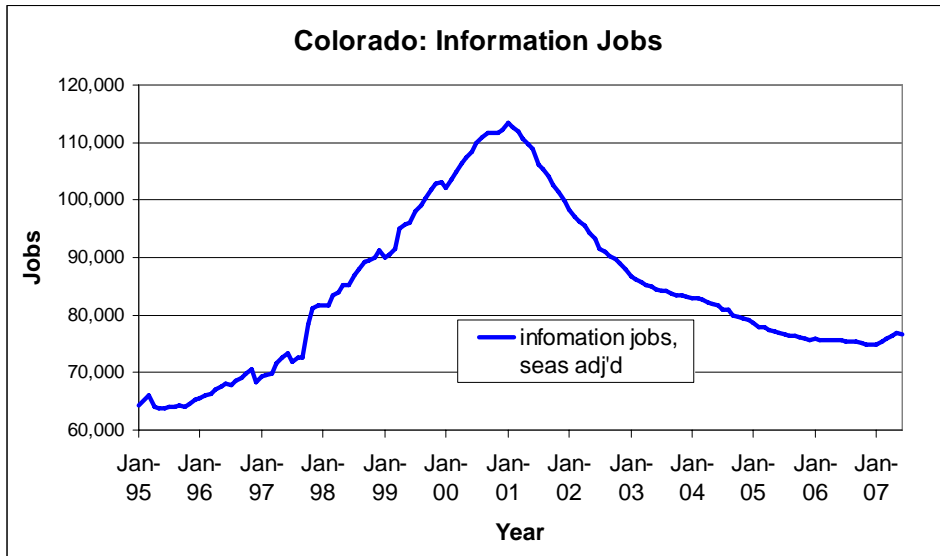
This is the same graph over a shorter period with an added curve showing that another 168 thousand jobs are needed to keep up with population growth (arrow at right indicates the gap).

Mfg lost: -44,100 Jobs since Jan 01 - 46,600 since Apr 98



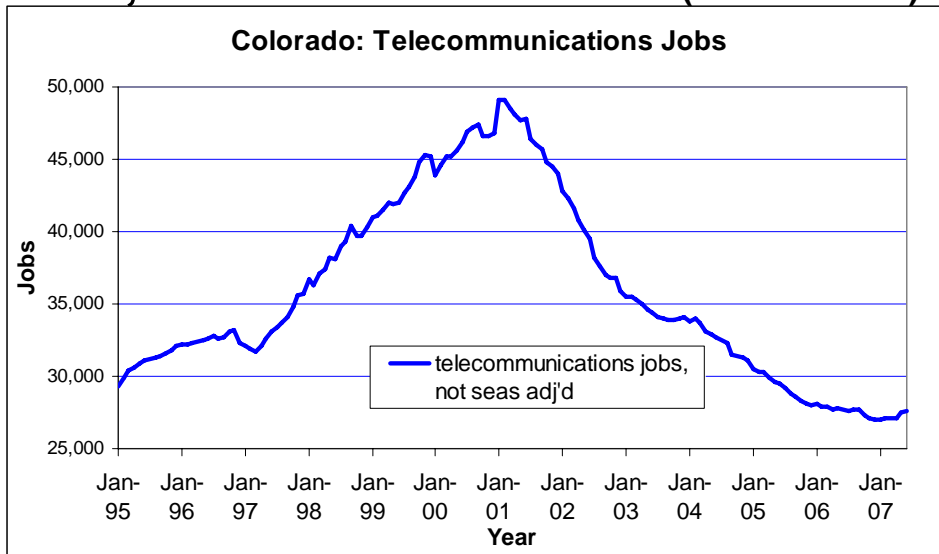
Colorado has lost over 44 thousand manufacturing jobs and the number of jobs is still falling.

IT lost: - 37,100 Jobs since Jan 01



And Colorado is losing Information Technology jobs, too. Remember, these are the jobs for which many who lost their manufacturing jobs retrained.

Telecom lost: - 21,500 Jobs since Jan 01 (included in IT)

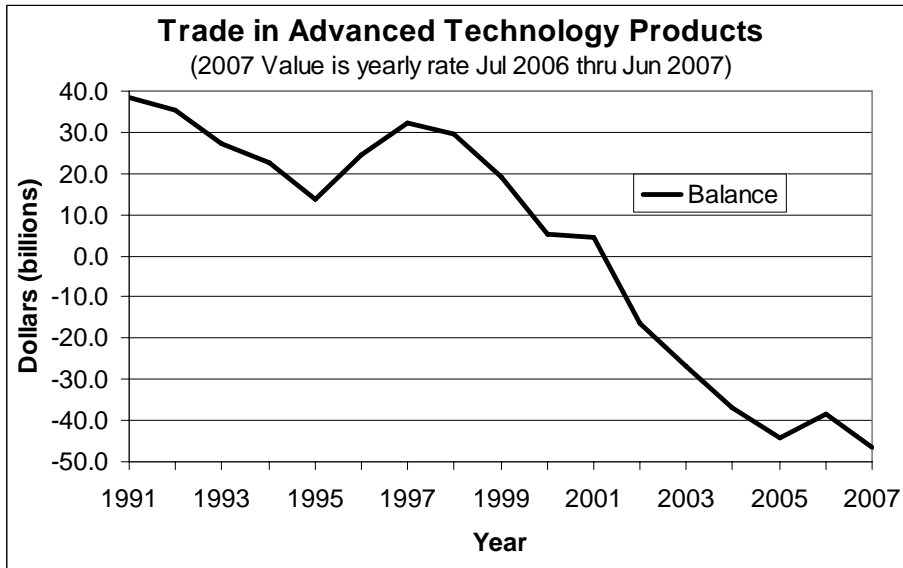


Since these slides were originally presented, I discovered these jobs are included in the Information Technology job numbers.

Of course, the same thing is happening to telecommunications jobs. Colorado, and the U.S., is losing many, if not most, of the good jobs.

These graphs makes it clear that, when there aren't enough jobs to keep up with population growth, retraining and "getting more skills" isn't going to solve the problem.

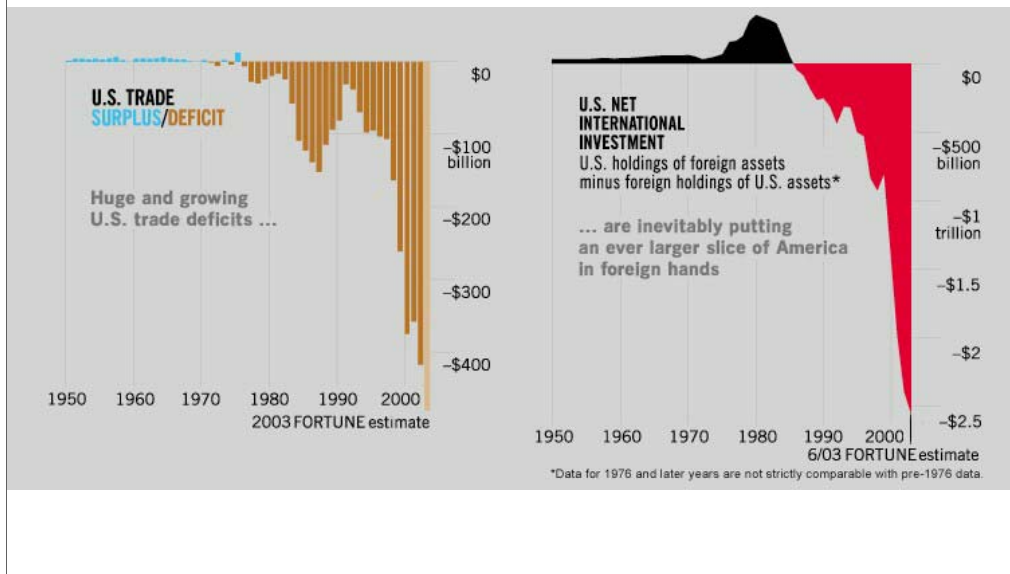
ATP +\$40B to -\$47B in 17 yrs



This is really driven home by this chart. We're told that retraining in high technology will create good jobs. But we've gone from a \$40 billion trade surplus in Advanced Technology Products in 1991 to a \$48 billion trade deficit in 2007.

You have to go to a different file to find the number for every year, so this trend isn't easy to spot.

The Trade Debt has led to Selling Off the U.S.



A major impact of the trade deficit is that we're selling off America.

This is a chart from an article by Warren Buffett. Find a link to this "must-read" at "The Trade Deficit and the Fallacy of Composition" at <http://www.exponentialimprovement.com/cms/fallacy.shtml>.

The chart refers to "international investment," which sounds good, but what this really means is that more and more U.S. assets (companies, roads, buildings) are being sold to foreigners. This means the profits earned aren't staying in the U.S. to fuel the economy; it's draining the economy.

Often there's "good press" about how many jobs are being "created" by this Foreign Direct Investment. But really, most of the jobs are just being reclassified as jobs at foreign-owned companies instead of jobs at U.S. companies. They're not being "created."

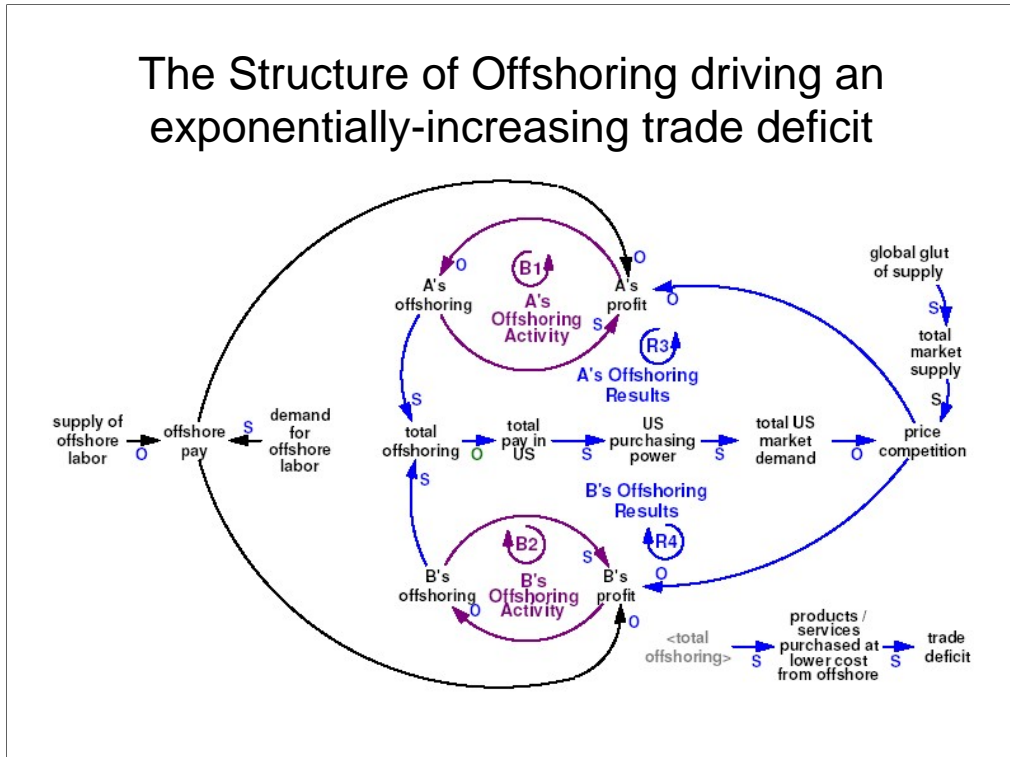
The Future

- Trade deficit exponentially increasing
- Dollar sell-off ... value drops
- Hyperinflation
- Fed raises interest rates to “fight inflation” and “protect the dollar.”
- Shut down economy ... more Job Loss
- Great Depression

This is our future ... a hyperinflationary “Great Depression” ... **if we don't get a populist president and congress to reverse these trends.** John Williams at Shadow Government Statistics agrees (again, google it ... great site).

Sorry to say, it may be too late and we may be doomed anyway, but if we're to have a chance at all, **Edwards is the guy.**

The Structure of Offshoring driving an exponentially-increasing trade deficit



The exponentially-increasing trade deficit is a result of Logical Individual Logic that's Collectively Irrational

Each company's logical offshoring adds to total offshoring, which also has the effect of lowering pay in the U.S. (see references below). This in turn reduces U.S. purchasing power and total U.S. market demand, which increases price competition ... leading to pressure for even more offshoring.

So every company logically offshores to cut costs, but when all do, none have lower costs than others and they are no better off than before in competing in the U.S., the world's largest and most profitable market ... for the time being, until we finally kill off the goose that laid the golden eggs.

In addition, U.S. purchasing power erodes, undermining the whole. As long as offshore pay is lower than in the U.S. and there's a global glut of capacity, the individually logical decisions on the part of corporations will power this "reinforcing feedback." Offshoring increases products & services purchased from offshore and in turn results in an exponentially-increasing trade deficit.

Eventually, as offshoring continues, demand for offshore labor will increase, but there will be a long delay before demand for offshore labor exceeds supply. This will keep offshore wages low for decades, if not a century. If there were to be a world equilibrium of pay, one might expect the equilibrium would be at the weighted mean between U.S. and China pay. Because there are so many Chinese workers compared to U.S. workers and because their pay is so low, the equilibrium would be a very low pay indeed.

See how the American Chamber of Commerce and World Bank are opposing an increase in working conditions and pay in China at "Are there government & business entities that oppose improving working conditions and wages?" <http://www.exponentialimprovement.com/cms/consdia.shtml#7>

Some maintain that as economic conditions improve offshore and pay rises, the world will purchase more goods from the U.S. This won't be true because pay will only rise very slowly and they will also purchase from low-cost sources, not from the U.S.

Long before we reach such equilibria, the U.S. economy will collapse due to the exponentially-increasing trade deficit as the rest of the world decides to stop taking U.S. dollars for their goods. In response the Federal Reserve will have to raise interest rates to maintain borrowing, because large and growing government deficits and debt won't allow the U.S. to pay off the loans.

This growing trade deficit is the root of the controversy over selling US ports to a UAE company. That wasn't, and still isn't, about "good foreign direct investment in the U.S." (see Buffett's chart above showing increasing foreign holdings of U.S. assets). It's about selling off parts of the US economy (including companies, buildings and toll roads) to take back some of the dollars from foreign hands to stave off the collapse of the dollar.